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DEPARTMENT OF TREASURY
LANSING

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STATE TREASURER

TO: Participating Schools and Lenders

FROM: Diane Todd Sprague, Director

DATE: April 14, 2005

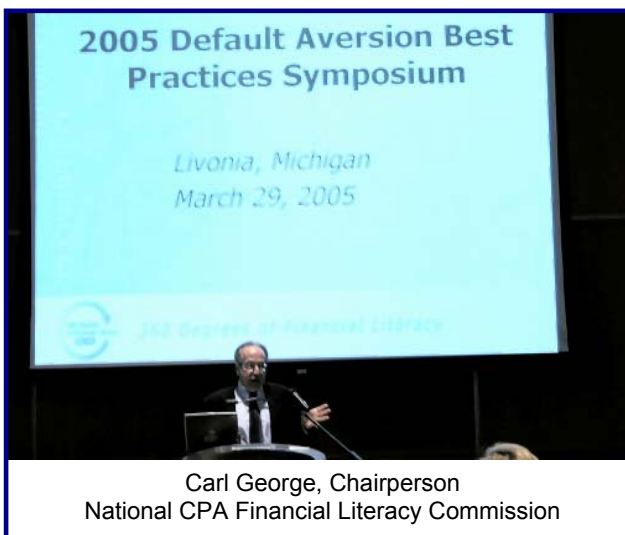
SUBJECT: Educational Loan Notes

BEST PRACTICES SYMPOSIUM A SUCCESS!

On Tuesday, March 29, 2005, the Michigan Guaranty Agency (MGA) hosted the 2005 Default Aversion Best Practices Symposium at Schoolcraft College in Livonia. The symposium was developed in response to a suggestion by the MGA Default Aversion Task Force formed in the fall of 2003.

The symposium focused on bringing schools together to discuss some of the best default aversion practices occurring in Michigan and around the country. In addition, the symposium featured keynote addresses by two prominent and nationally acclaimed experts on financial literacy.

Justin Draeger, MGA's Default Aversion Task Force Liaison, offered opening remarks. His comments focused on default aversion activities practiced around the country. Justin commented on a presentation from the Michigan Student Financial Aid Association (MSFAA) Winter Conference given by Lana Lowe, Ph.D., concerning the connection between financial literacy and student retention, and noted that some of the programs mentioned by Dr. Lowe had been researched and included in the symposium workbook.



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Mr. Carl George, currently serving as the chair of the National CPA Financial Literacy Commission and CEO of Clifton Gunderson LLP, gave the morning keynote address. Mr. George's remarks focused on the current financial crisis in the United States by offering startling statistics and examples. In addition, Mr. George defined the term "financial literacy" and presented clear and specific ways for financial aid professionals to help their students become financially fit. Mr. George concluded with information from the 360 Degrees of Financial Literacy Web site (www.360financialliteracy.org) that focuses on lifelong financial literacy and learning.

Ms. Laura Levine, Executive Director of the Jump\$tart Coalition, gave the afternoon keynote address, profiling the average high school senior and pointing out that today's high school senior is tomorrow's college freshman. Ms. Levine mentioned that Jump\$tart is currently exploring a national survey of college students to determine their level of financial literacy. Ms. Levine ended by taking questions from audience members and explaining more about the resources Jump\$tart hosts at www.jumpstart.org.



Laura Levine, Executive Director
Jump\$tart Coalition

Additionally, breakout sessions were held to discuss practical and innovative default aversion activities that financial aid professionals can use while their students are in school as well as after they have left. Notes from the breakout sessions, as well as a video recording of the keynote addresses, will be available shortly.

MGA 2005 SPRING SCHOOL WORKSHOPS

The Michigan Guaranty Agency is gearing up for our 2005 Spring School Workshops. These workshops offer an interactive format to provide you with the latest information to help you administer federal student loans and other aid programs. As always, there is no cost to your institution for attendance at our workshops. The workshops will cover the following topics:

Policy and Regulatory Update. This session will review the latest reauthorization issues and highlight other issues addressed by the U.S. Department of Education (ED).

NSLDS Data Conflict Resolution. This session will cover how National Student Loan Data System (NSLDS) data conflicts are resolved. Learn about the numerous NSLDS data providers and how to identify types of data conflicts that the NSLDS Customer Care Center can resolve and those conflicts that are not suitable to forward to the NSLDS Customer Care Center.

Return of Title IV Funds. This session will explore the regulatory background, concepts, and definitions in the regulations regarding returning Title IV student aid funds in the event that a student withdraws from an educational institution.

What Every Financial Aid Administrator Should Know About Taxes. Financial aid officers previously have not been required to be familiar with the U.S. tax code. ED now has indicated that financial aid administrators are "obligated to know" the following items:

- Whether an individual was required to file a tax return.
- What an individual's correct filing status should be, including requirements regarding filing as a head of household.
- That an individual cannot be claimed as an exemption by more than one person.
- Whether a mismatch exists between assets reported and income reported from assets.

This session is designed to provide a solid understanding of these elements of the tax code and to provide an easy-to-follow reference for financial aid administrators.

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Veterans' Benefits. This session will cover how to determine who is a veteran, what aid is available to veterans, and your responsibilities as a financial aid administrator. The session also will describe a few changes that have come about due to recent world events. ED makes a few exceptions to the regulations for veterans. As more veterans are attending school, financial aid professionals need to be aware of these guidelines.

Policy and Procedures Manual. A policy and procedures manual is a written accumulation of pertinent procedures that financial aid staff can use to process financial aid. The manual is used to centrally house required written policies and procedures as well as other important information that enables the financial aid office to run smoothly. In this session, you will learn the importance of having an up-to-date manual in your office as well as what you should include in the manual.

Workshops will be held on May 17, 2005, at Grand Valley State University, Allendale, and on May 19, 2005, at the VisTaTech Center at Schoolcraft College in Livonia. Registration and continental breakfast will begin at 8:30 a.m., with the first session starting at 9:00 a.m. Lunch will be provided, and we plan to conclude at approximately 3:00 p.m.

Registration materials were sent via email earlier this month. If you have any questions or concerns regarding registration, please contact Stacy Cardwell at 800-642-5626, extension 36074, or via email at cardwells@michigan.gov. Other questions pertaining to the workshop should be directed to Jim Swisk at extension 37121 or via email at swiskj@michigan.gov.

GET R.E.A.L.

How R.E.A.L. can it get? It doesn't get more R.E.A.L. than this. On Thursday, March 22, members of the Michigan Guaranty Agency team – Betty Calloway, Patty Hill, Jim Swisk, and Stephanie Bogard – participated in the second week of a seven-week session of the R.E.A.L. Program sponsored by MSFAA's Early Awareness Multicultural Outreach Committee. R.E.A.L. is an acronym for Real Early Awareness Lessons. Approximately 60 eleventh grade students from Pontiac Northern High School participate in the R.E.A.L. Program, which is

designed to promote the importance of a higher education. In today's economy, a college education is the key to higher salaries and an improved quality of life. Over the course of a lifetime a person who attains a college degree will earn, on average, \$1 million more than a person without a college degree. This is demonstrated throughout the R.E.A.L. Program, especially during the second week when students participate in "Extreme Reality."

"Extreme Reality" is an extension of the "Reality Store," which was discovered by the Multicultural Awareness Committee after volunteering to assist the Ypsilanti Business & Professional Women's Organization. The Pontiac Northern eleventh grade students are provided with a salary based on their educational level and career choice. In addition, they are provided with a "family status" of married, single, or divorced, and told the number of family members they have. Taxes and savings are deducted automatically from the student's salary in order to demonstrate the difference between gross and net earnings along with stressing the importance of saving. Students are given a checkbook with the remaining monthly



Students get R.E.A.L. at Pontiac Northern High School.

salary after the deduction for taxes and savings. Using the checkbook, students will rotate station by station through the "lifestyle store" and make decisions on housing, utilities, student loans, groceries, personal necessities, health insurance, transportation, household needs, child care, clothing, household expenses, entertainment, and donations. At the last station, the student, depending on the decisions made, will either "check-out" or receive counseling, especially if

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the student runs out of money. In this situation, the student is asked to go back to the previous stations and make adjustments to their lifestyle in order to live within their budget. By the end of the interactive activity students have learned the importance of budgeting, how a college education and career choice affect salaries, and have been provided “real” life experiences that they will face as responsible adults.



MGA's Betty Calloway and Jim Swisk work with a student in the R.E.A.L. Program.

The third and fourth sessions of the R.E.A.L. Program will take place this month. On Tuesday, April 19, students will receive information on career and college choices. The session on Tuesday, April 26 will focus on funding an education and managing debt. If you would like more information about this program, contact Stephanie Bogard at extension 12101 or via email at bogards1@michigan.gov.

WHIZKID®/OPENNETSM TRAINING

The Michigan Guaranty Agency, in partnership with Sallie Mae, is pleased to sponsor a WhizKid®/OpenNetsm training session on **Wednesday, June 15, 2005**. Gaynel Bryan from Sallie Mae will facilitate the workshop.

The training will provide updates on WhizKid enhancements in the morning and OpenNet functionality in the afternoon. This WhizKid/OpenNet training is ideal for new personnel or for the staff of schools that are changing their application processing scenario. An email notice will be sent with additional information on the WhizKid/OpenNet training, but **mark your calendar for June 15, 2005**.

If you have any questions regarding the training, please contact Flora Boles, School Services, at extension 52882 or via email at bolesf@michigan.gov.

ADDITIONAL GUIDANCE ON GRAMM-LEACH-BLILEY

The Federal Reserve Board has issued a press release announcing the formation of joint interagency guidance which addresses security breaches involving customer information. These guidelines, developed by the federal bank and thrift regulatory agencies, require every regulated financial institution to develop a risk-based response program to notify customers when unauthorized access to their personal information has occurred. A copy of the Federal Reserve Board's press release may be accessed at the following Web site: <http://www.federalreserve.gov/boarddocs/press/bcreg/2005/20050323/default.htm>.

This guidance expands on the information security guidelines issued by the same regulatory agencies, which implemented section 501(b) of the Gramm-Leach-Bliley Act and is applicable to banks and thrift institutions. The guidelines stipulate that when a breach of security occurs involving customer information, the institution should conduct a reasonable investigation to determine if any customer's information *has been* or *will be* misused. If the investigation concludes that sensitive customer information has been jeopardized, the institution should notify the affected customer as soon as possible.

Sensitive customer information is defined as a customer's name, address, or telephone number in conjunction with the customer's Social Security Number (SSN), driver license number, account number, card number, or a Personal Identification Number (PIN) or password that would permit access to an account. It also includes any combination of components that would allow someone to log on or access an account.

You may access details of the additional guidance at the following Web site: <http://www.federalreserve.gov/boarddocs/press/bcreg/2005/20050323/attachment.pdf>. If you have questions regarding this matter, please contact Betty Calloway at extension 39639 or via email at callowayb@michigan.gov.

SPECIAL ALLOWANCE RATES

Special allowance rates based on the 91-day Treasury Bill (T-bill) average and the three-month Commercial Paper average for the quarter ending March 31, 2005, are attached to this issue of *Educational Loan Notes*. The average of the bond equivalent rates of the 91-day T-bills auctioned during the quarter ending March 31, 2005, is **2.60 percent**.

All new loans disbursed through the Federal Family Education Loan Program (FFELP) on or after January 1, 2000, are paid special allowance, if eligible, based on the Commercial Paper rate. The average of the bond equivalent rates of the quotes of the three-month Commercial Paper (financial) rates in effect for each of the days in the quarter ending March 31, 2005, is **2.78 percent**.

ED TAKING ACTION AGAINST UNTIMELY COMPLETION OF LENDER CONSOLIDATION VERIFICATION CERTIFICATES

The U.S. Department of Education has announced that in the near future they will begin taking enforcement action against FFELP lenders who do not comply with regulatory requirements on the completion of Consolidation Loan Verification Certificates (LVC). Federal law requires current holders of loans accepted for consolidation to complete an LVC for each loan to help the consolidating lender determine the payoff amount of the loans. Loan holders have ten business days after receiving a written request to provide the LVC to the lender, or they must provide a written explanation as to why they cannot certify the loans.

ED previously published Dear Colleague Letter (DCL) FP-04-02 which gave guidance regarding a lender's written explanation as to why they cannot provide the certification. The DCL also explained other pertinent information regarding Loan Verification Certificates. A copy of this Dear Colleague Letter may be obtained from ED's Web site at <http://www.ifap.ed.gov/dpcletters/FP0402.html>. MGA will provide more information regarding this matter when ED issues their final course of action.

Copies of the Consolidation Loan Verification Certificate are available online at http://www.salliemae.com/forms/mgaSupplies_form.asp. If you have additional questions, contact Betty Calloway at extension 39639 or via email at callowayb@michigan.gov.

ED ISSUES REVISED DCL ON TEACHER LOAN FORGIVENESS APPLICATION AND FORBEARANCE FORMS

ED recently published Dear Colleague Letter GEN-05-02 which corrects an error that was made in the original letter regarding when the use of the Teacher Loan Forgiveness Forbearance form is appropriate. The DCL also announces the approval of the Teacher Loan Forgiveness Application and Forbearance Form.

Program participants may begin distributing the forms immediately; however, beginning July 1, 2005, only the new application and forbearance form may be provided to borrowers. The previous versions of the forms that were dated prior to July 1, 2005, may continue to be processed if applicable. The DCL also includes important information regarding imaging technology, printing instructions, and obtaining copies for reproduction.

You may access a copy of the revised Dear Colleague Letter at the following Web site: <http://www.ifap.ed.gov/dpcletters/GEN0502Revised.html>. If you have any questions, please contact Betty Calloway at extension 39639 or via email at callowayb@michigan.gov.



THE “ED” PIPELINE**Dear Partner****April 2005****GEN 05-05**

Federal Student Aid (FSA) announces a new name for the Front-End Business Integration (FEBI) initiative.

Dear Partner**March 2005****GEN-05-04**

On or about April 30, 2005, FSA will begin sending correction reminder notifications to 2005-06 Free Application for Federal Student Aid (FAFSA) filers who indicated, or whose parent(s) indicated, that they completed the FAFSA using estimated income information.

Dear Partner**March 2005****ANN-05-03**

This letter announces FSA’s 2005-06 online, instructor-led training sessions for users of EDEExpress and FAA Access to the Central Processing System (CPS) Online. Topics covered are: application entry in EDEExpress and FAA Access, corrections in FAA Access, Institutional Student Information Report (ISIR) request generation, and software enhancements to both systems.

Dear Partner**March 2005****GEN 05-02 (REVISED)**

This revised letter corrects an error that was made in the original letter regarding when the use of the Teacher Loan Forgiveness Forbearance Form is appropriate.

LENDER LIST UPDATES

School personnel should record the following actions on the “Participating Lender List” dated October 25, 2004. Please make the appropriate changes in all sections of the list as needed. If you have any questions regarding these updates, please contact Pat Fromm at extension 36076 or via email at frommp@michigan.gov.

Joined Referral Program

The following lenders have joined the Standard Federal referral loan program. Their address is c/o Nelnet, Inc., P.O. Box 82596, Lincoln, NE 68501-2596. Telephone number: 800-755-7858.

222019 FM Financial Credit Union**831876 Citizens State Bank****SCHOOL LIST UPDATES**

The following changes should be recorded by lenders on MGA’s “Active Michigan School List” dated January 31, 2005. If you have any questions regarding these changes, please contact Stacy Cardwell at extension 36074 or via email at cardwells@michigan.gov.

Telephone Number Change**Eastern Michigan University, Ypsilanti, 002259-00**

Stephanie Petsch’s new telephone number is 734-487-1056.

Contact Name Changes**Davenport University, Grand Rapids, 002249-00**

Delete Deborah Starr-Alderink. Anna English, Financial Aid Coordinator, is the contact person for this campus. Anna’s telephone number is 616-451-3511, extension 1139, and her email address is anna.english@davenport.edu. The fax number remains the same.

Davenport University, Flint, 002249-30

The new contact person is Paul Hebert, Career Education Specialist. Paul’s telephone number is 810-732-9977, and his fax number is 810-732-9128. Paul’s email address is paul.hebert@davenport.edu.

Michigan State University – Detroit College of Law, 002254-00

Delete Pam Shaw. The new contact is John Garcia, Director, Office of Financial Aid. John’s telephone number is 517-432-6811, and his fax number is 517-432-0098. His email address is garcia11@law.msu.edu.

“Q” AND “A”
PROGRAM REVIEWS

What is a program review?

Guarantors are required by federal regulations to conduct comprehensive biennial program reviews of certain schools and lenders participating in the FFELP. At their discretion, guarantors may also elect to review third-party servicers as well.

Program reviews are conducted to assess the administrative and financial capability of schools, lenders, and servicers within FFELP.

What types of things will the guarantor be looking at when they conduct a program review?

A program review will measure the school's compliance with all applicable requirements related to its FFELP participation and administration as related to:

- The Higher Education Act of 1965, as amended.
- Federal regulations (600, 688, and 682).
- Guarantor-specific policies and procedures.

What criteria are used to determine which schools are selected for a program review?

A guarantor must use prescribed federal requirements when considering entities for a program review. A guarantor may also use any other criteria that it considers pertinent to the efficient and effective administration of FFELP.

However, guarantors **must** perform a biennial program review of each school in any state in which it is the primary guarantor (i.e., Michigan) that has had a cohort default rate exceeding 20 percent for either of the two most recent cohort years.

If my institution has a cohort rate above 20 percent, but a very small loan volume amount, is it exempt from the above requirements?

Yes, if a school has a cohort default rate exceeding 20 percent, but it has less than \$1million in loans entering repayment in each of the two applicable years, it may be exempt from the above requirement.

Additionally, a school may be exempt from a program review if ED has already required the school to follow specific default reduction measures due to the high cohort default rate.

Could you be more specific about the “other criteria” that a guarantor may consider pertinent in deciding to do a program review for a school?

Other criteria may include:

- Loan volume trends (substantial increases or decreases).
- Evidence of regulatory violations.
- Evidence of potential fraud or abuse in its FFELP participation.
- Complaints from lenders, borrowers, or students.
- Weaknesses identified during the process by which schools first obtained FFELP eligibility.

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What is the program review process?

A program review consists of four distinct phases:

1. The preliminary review.
2. The on-site review.
3. The issuance of a program review report.
4. The review closeout.

Not only does my institution receive periodic program reviews from MGA, but from other state of Michigan agencies as well. Is there any way to make these more efficient?

Yes! Beginning in 2005, auditors from MGA will perform program reviews for FFELP as well as other state programs. Other programs that are subject to review at the time of a FFELP program review include:

- Michigan campus-based programs.
- Michigan Nursing Scholarship Program.
- Michigan Tuition Incentive Program.
- Michigan Merit Award Program.

The Bureau of Student Financial Services hopes that combining these program reviews will reduce the redundancy required to make separate arrangements for separate auditors throughout the year. Additionally, schools will have a single point of contact for all program review questions.

Where do I learn more about program reviews?

You may learn more about program reviews by reading Chapter 16 in the *Common Manual*, including what to expect at each phase of the program review. Additionally you may contact Sam Duncan, Audit and Program Review, at extension 56770 or via email at duncans@michigan.gov.

Have a question you would like to ask? Contact Justin Draeger at extension 31940 or via email at draegerj@michigan.gov to submit your question or to suggest a topic you would like to see discussed in a subsequent issue of *Educational Loan Notes*.

Calendar of Upcoming Events

May 2005

- 10 Guaranty Agency Advisory Committee
State Library and Museum
Lansing, Michigan
- 10 Mapping Your Future Evening Chat
Student Loan Consolidation, Forgiveness,
Cancellation, and Discharge
- 17 Spring School Workshop
Grand Valley State University
Allendale, Michigan
- 19 Spring School Workshop
Schoolcraft Community College
Livonia, Michigan
- 30 MGA Offices Closed

June 2005

- 15 WhizKid/OpenNet Training
Location to be announced.
- 26-29 MSFAA Summer Conference
Crystal Mountain
Thompsonville, Michigan

If you need further information or wish to submit items for the calendar, please contact Jim Peterson, Editor, at extension 36944, or via email at petersonj@michigan.gov.

**91-DAY TREASURY BILL
SPECIAL ALLOWANCE RATES
FOR
QUARTER ENDING MARCH 31, 2005**

	Loan Rate	Special Allowance Annual Rate	Special Allowance Quarterly Rate	Special Allowance Category
SA	7% 9%	0 0	0 0	<u>SA</u> - for loans made before 10/01/81.
SB	7% 8% 9%	0 0 0	0 0 0	<u>SB</u> - for Stafford (subsidized) and PLUS loans made on/after 10/01/81 but before 10/17/86 or loans made on/after 10/17/86 but before 11/16/86, for enrollment periods beginning before 11/16/86.
SD	7% 8% 9% FVAR10 (4.17%) PLUS/SLS Var (4.81%) FVAR7, FVAR8, FVAR9, EVAR (4.32%)	0 0 0 .0168 0 .00153	0 0 0 .004200 0 .003825	<u>SD</u> - for Stafford (subsidized) and PLUS/SLS loans made on/after 10/17/86 but prior to 11/16/86 for enrollment periods beginning on/after 11/16/86. For Stafford (subsidized) and PLUS/SLS loans made on/after 11/16/86 but before 10/01/92. Also, for Stafford (unsubsidized) loans made prior to 10/01/92 for periods of enrollment beginning on/after 10/01/92.
SE	FVAR7 (4.17%) FVAR8 (4.17%) FVAR9 (4.17%) FVAR10 (4.17%) EVAR (4.17%) PLUS/SLS Var (5.26%)	.0153 .0153 .0153 .0153 .0153 .0044	.003825 .003825 .003825 .003825 .003825 .001100	<u>SE</u> - for Stafford loans made on/after 10/01/92 but prior to 07/01/94, regardless of the enrollment period, or loans made after 07/01/94 for an enrollment period ending prior to 07/01/94. Also, for PLUS loans made on/after 10/01/92 but before 07/01/94. Also, for SLS loans made on/after 10/01/92 but before 07/01/94; or certified before 07/01/94 and disbursed after 07/01/94.
SG	Stafford Var (4.17%) PLUS Var (5.26%)	.0153 .0044	.003825 .001100	<u>SG</u> - for Stafford loans made on/after 07/01/94 but before 07/01/95, or loans made on/after 07/01/95 but before 07/01/98, during periods of repayment or forbearance. Also, for PLUS loans made on/after 07/01/94 but before 07/01/98.
SH	Stafford Var (3.57%) PLUS Var (5.26%)	.0153 0	.003825 0	<u>SH</u> - for Stafford loans made on/after 07/01/95 but before 07/01/98 only during the in-school, grace, and deferment periods. Also, for PLUS loans made on/after 07/01/98 but prior to 01/01/00.
SJ	Stafford Var (2.77%)	.0213	.005075	<u>SJ</u> - for Stafford loans made on/after 07/01/98 but prior to 01/01/00 only during the in-school, grace, and deferment periods.
SK	Stafford Var (3.37%)	.0203	.005075	<u>SK</u> - for Stafford loans made on/after 07/01/98 but prior to 01/01/00 only during the repayment and forbearance periods.

PLEASE NOTE: The 91-day T-bill average (bond equivalent rate) is **2.60 %** for the first quarter of **2005**. This results in the following yields:

SA 2.60% plus 3.50% = 6.10%	SG 2.60% plus 3.10% = 5.70%
SB 2.60% plus 3.50% = 6.10%	SH 2.60% plus 2.50% = 5.10%
SD 2.60% plus 3.25% = 5.85%	SJ 2.60% plus 2.20% = 4.80%
SE 2.60% plus 3.10% = 5.70%	SK 2.60% plus 2.80% = 5.40%

**91-DAY COMMERCIAL PAPER
SPECIAL ALLOWANCE RATES
FOR
QUARTER ENDING MARCH 31, 2005**

	Loan Rate	Special Allowance Annual Rate	Special Allowance Quarterly Rate	Part IV: Special Allowance Category Column C
CA	Stafford Var (2.77%)	.0175	.004375	<u>CA</u> - for subsidized/unsubsidized Stafford loans made on/after 01/01/00 but prior to 07/01/06, only during the in-school, grace, and deferment periods.
CB	Stafford Var (3.37%)	.0175	.004375	<u>CB</u> - for subsidized/unsubsidized Stafford loans made on/after 01/01/00 but prior to 07/01/06, during the repayment and forbearance periods only .
CD	PLUS Var (5.26%)	0	0	<u>CD</u> - for PLUS loans made on/after 01/01/00 but prior to 07/01/06. Note: special allowance will not be paid unless the calculated interest rate exceeds the 9% cap.

PLEASE NOTE: The three-month Commercial Paper average (bond equivalent rate) is **2.78%** for the first quarter of **2005**. This results in the following yields:

CA 2.78% plus 1.74% = 4.52%
CB 2.78% plus 2.34% = 5.12%
CD 2.78% plus 2.64% = 5.42%